Career Development

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Space disallows a full treatment of the subject so some abbreviation needs be both tolerated and exercised. Firstly, An aspect of employment is conflated with other aspects which circumstantially differ among individuals. One size fits all solution(s) can be difficult admittedly, but partisan advocacy or blame assignments alone can serve to cloud perspective.

Starting from fundamental facts about typical North American life, one prepares for employment during high school to be a capable worker at the unskilled level for minimum wage jobs. Post secondary education prepares one for skilled level capability for skilled jobs. Similarly Post graduate education prepares for so-called professional jobs. To repeat chronologically: After age 25 one enters the work force seeking employment, the acquisition of which gainfull employment, if any, circumstantially may be delayed. Follows is about 30 years of gainfull employment optimally. Circumstantially, that word is pregnant with implications from the high school stage of career planning, gainfull employment will wind down, if not cease at approximately age 55. This is an average over several compelling forces including job skills obsolescence, health, age, downsizing, company closing forces. With life span extending to about 85, that gives a period of life spanning about 30 years absent any employment income.

It is from this fact, this destiny, that any career must be constructed to supply replacement income upon employment income termination, whatever the reason for such termination.

A well lived life includes payments and expenses not the least are taxes of all kinds, which are the greatest obstacle to the accumulation of retirement wealth. At job termination, the employment income ceases but current debts both short term and long term remain and must be serviced prior to one’s food and lodging. The descent from living relatively well while employed, to sliding into poverty is not slow, but financially abrupt, in steps, and psychologically painful, especially when circumstances of health, increased costs of living, support expenses for one’s unemployed/underemployed adult children are added to one’s financial and economic status. This is a much different scenario from the rosy golden years’ retirement period considered in one’s youth.

From the perspective and warning of this economic doom, one plans a career to increase one’s wealth during employment toward the object of creating sustainable additional income streams that will remain contributory as income replacement: Part-time additional work, monetizing hobby and crafting, using one’s vehicle for transport for compensation, coaching/tutoring for compensation, successful investing and successful self-employment.

Life must be for one's self, not dedicated to any employer. The traditional worker mindset sacrifices personal income, which establishes a post employment life of relative poverty. Reasons why things are wrong are not in themselves solutions. Aware that a life's duration of after tax income is needed to endure post employment for approximately as long as employment years themselves, one must utilize strategies from the onset of working career toward the formation of additional income streams. An entrepreneurial spirit will dominate, but does not necessitate self employment alone. A combination of lower life style, lower tax rate, higher than average investment returns and additional job(s) will be necessary. So just how much money will be needed on average?

Given the formula of Future Value with contributions, where FV = future value, A = annual contributions, n = number of years, I = annual rate of simple interest, "*" means "raised to the power of":

FV = A x [(1 + i) * n] -1/i

A contribution of $100.00/month for 30 years at a 10% annually compounded rate of return will have a future value of $208,800.00. The after tax value at 20% tax bracket is 208,800 - 41,760.00 = $167,040.00, assuming the amount was not rolled over into an annuity of tax deferred annual payments. The taxable income of this net amount at 10% simple annual interest is $16,704.00/yr or $1,392.00 per month. This future value is, as a sum from a low contribution amount, a far cry from, say, $70,000.00 per year former employment salary and will be just short of half the former net employment income at a 50% tax rate.

No employment replacement income this, but is an income stream not to be ignored, but rather necessarily included in any career planning for post employment, so-called financial freedom at 55. In the case of a shortfall, continued employment, if only underemployment at minimum wage, irregular hours and short contracted work may be necessary. Thusly, "retirement" as conventionally understood, will be a state of unemployment beyond the financial reach of a rapidly increasing number of workers.

Some experimenting with the formula exposes the dominant effect of compound interest working to one's favour especially in a tax deferred scheme. 30 years is indeed a long time, which must be used to one's income advantage. A 10% annual rate of return will not always be possible on average. A much smaller rate of say, 5%, will drastically lower the final sum. Due to tax deference, allowing the contributions to accumulate without the effect of net tax, and due to annually tax deductions from registered plans, a 10% annual return after tax is an attainable rate of return bearing in mind the higher the rate of return on average the less likely that rate will be attained. One cannot count on beating the market consistently and receiving yearly pre-tax returns of 15%-20%.

A modest but attainable baseline must be considered, then additional income streams deployed to its supplement. This is of course diversification of investments, where employment itself is merely one of one's income streams. Increased immunity to poverty is gradually augmented as supplementary income streams are brought online. Government and employment pensions will also be supplements to one's income after employment.

Registered tax deferred plan can be the main source of retirement income.

Optimize the plan with a self-directed one in equities upon which options are written for an average of 15% simple annual return rather than 5% return conventionally in bonds/mutual funds.

Minimize all or most debt:

$1,000.00 of disposable income requires $1,200.00 pre-tax employment/interest income.

A monthly debt payment of $100.00 on a $4,000.00 debt payable over several years at 15% is divided on average as $85.00 repayment of principle plus $15.00 payment of finance charge. Thusly $120.00 pre-tax income will be dispensed as $120.00 x .85 plus $120.00 x .15 = $102.00 + $18.00. One must earn $18.00 pre-tax monthly income to pay just the finance charge and $102. 00 just to repay $85.00 of principal! From $120.00 pre-tax earned, only $85.00 is subtracted from the debt per month. A total of $35.00 in income tax and finance charge per month represents the real percentage cost of this debt at 35/100 or 35%. During a re-payment period of 3 years, one would have repaid in total more than the principal amount and still be owing!

Clearly taxes on earned income to pay finance charges, comprise a hidden aspect of debt that forces anyone to realize the extra burden placed upon one's labour to earn extra pre-tax income. An income near minimum wage demands a poor lifestyle by any metric, both through the restraint on the purchase of elective items and the constraint to service their debt repayment, if applicable. There is no alternative, save the increase of total pre-tax income received and of that the minimization of total taxes paid to increase the net ability to service debts. Consequently, along with increased income, minimum debt must be assumed in tandem as the desired goal of financial life even to the relative expense, to a limiting minimum, of life quality.